

# Blended Value Feasibility Study

## Cash Flow Forecast

### User Guide

#### **OVERVIEW**

The Cash Flow Forecast is the listing of the sources and expenditures of cash plus the timing of when the cash is moving in and out of the enterprise. Usually the forecast for a Feasibility Study is set up for a period of one fiscal year with the actual transactions presented on a month to month basis. The ability to project the flow of cash is one of the principal tools in developing a successful enterprise.

Typically non-cash activities such as depreciation and amortization are not recorded in the Cash Flow Forecast. In addition, if your enterprise uses the accrual system, cash that is earned but not yet received or expenses that are incurred, but not yet paid for, is not recorded in this document until the cash transaction has taken place. For that reason your net cash balance will be different than your net profit figure which is found on the Income/Expense Statement.

It is recommended that, in the case of a Blended Value Cash Flow Forecast, the non-cash activity of the In-Kind Contributions and Hidden Costs should also be included as part of the Cash Flow forecast because of the potential impact on the enterprise's operations.

A Cash Flow Forecast is an essential document since it is the reality of most enterprises that there is a time lag between when the money goes out and when it comes back in. In other words, you will find that you pay for many of your expenditures before you receive the cash from your sales. In addition, for most enterprises, the sales activity is cyclical over the course of the year. There will be periods of increased sales activity and other times when your sales activity slows down. The cash flow forecast is a tool to help you predict how these changes will impact the solvency of the enterprise.

This User Guide is to be used in conjunction with the Blended Value Feasibility Study Cash Flow Forecast Spreadsheet. These materials will support you in customizing the spreadsheet to the specific enterprise you are developing. **The spreadsheet template provides you with the format for a Blended Value Cash Flow, but you will need to tailor it to include income and expense line items specific to your unique social enterprise.**

#### **SHEET 1: CASH FLOW – PROJECTED and SHEET 2: CASH FLOW - ACTUALS**

Two sets of *almost* identical cash flow spreadsheets have been provided to help your SE in two stages of your development.

*Sheet 1: Cash Flow – Projected* is intended to be used at the beginning of each year in your planning phase. This is where you enter your best estimates related to all the income and expenses your SE will incur each month.

*Sheet 2: Cash Flow – Actuals* is a working document that you should be reviewing and updating each month with the actual cash you have earned or raised and the actual costs related to running your SE. In tracking cash flow in this way, you should be able to see any cash flow challenges early enough to intervene, by either adjusting costs, increasing marketing to generate higher sales, approaching your lender for a short-term bridge financing, etc.

The easiest way to use these first two spreadsheets is to create your master file as the Projected Spreadsheet and, once you are certain that you have accounted for all income and expense categories, simply create a copy

of that spreadsheet. Right click the tab at the bottom, select “Move or copy,” check the “Create a copy” box at the bottom of the pop-up. Now rename the tab and replace all references to “Projected” with “Actual.”

## **CASH IN-FLOW**

The figures in this section are specific to the cash received from all sources of sales, financing and mission income.

### **Cash from Earned Income**

The financial information included in this section is limited to the total cash from all product and services sales.

#### **Product Sales**

The total cash value received for the product or products sold by your enterprise. If your enterprise sells more than one product it is recommended to track the sales of each product separately.

#### **Service Sales**

The total cash value received for the service or services sold by your enterprise. If your enterprise sells more than one service it is recommended to track the sales of each service separately.

#### **Subtotal Cash from Earned Income (A)**

The combined cash value of all income from the sale of all products and services.

### **Cash from Financing**

This is cash received that is not related to the sale of goods or services but is income that is a result of a financing transaction. Examples include: business loan; interest income; use of credit.

#### **Subtotal Financing (B)**

The total cash value of the financing that was received by the enterprise.

### **Cash from Mission Income**

Differentiating mission or social income from pure business income can help you to better plan and manage the multiple bottom-lines of the social enterprise. Mission income is the income received that is related specifically to supporting your mission objectives that may or may not be available in the long-term. Examples include: grants; sponsorships; donations; and proceeds from fundraisers.

#### **Subtotal Mission Income (C)**

The total cash value of all sources of Mission Income received by the enterprise.

### **TOTAL Income All Sources**

This figure is calculated by adding Total Cash Sales (A) to Total Financing (B) and Total Mission Income (C).

## **CASH OUT-FLOW**

### **Fixed Business Expenses**

These costs do not vary based on the amount of sales or activity levels of the enterprise.

## **Direct Costs**

These are costs that can be traced directly and easily to the business activity with a high degree of accuracy. Examples of direct costs include: facility rent and maintenance; supervisor wages; materials and labour.

### **Subtotal Direct Costs (F)**

The total of all direct business costs incurred by the enterprise.

## **Indirect costs**

These are costs that are integral to running the business but cannot be readily tied to a particular activity or input. In an organization where overheads and other indirect costs are shared amongst a number of programs and activities, a reasonable mechanism should be determined to fairly distribute these shared costs to properly reflect the true cost to each program and activity. Examples of Indirect costs: heat, electricity, telephone; administration and accounting; marketing; portion of governance and strategic development costs; portion of general fundraising activities and banking and finance charges.

### **Subtotal Indirect Costs (G)**

The total of all indirect business costs incurred by the enterprise.

## **SUBTOTAL Fixed Expenses**

Add the total of Direct Costs (F) to Indirect Costs (G).

## **Variable Business Expenses**

These are expenses that vary in direct relation to the level of your sales activity. Variable expenses include most of your selling expenses such as: raw materials; wages; commissions and delivery costs.

### **Sub-Total Variable Business Expenses (H)**

Add the total of all Variable Costs.

## **J – TOTAL Business Expenses**

Add the subtotal of Fixed Expenses (E) to Variable Business Expenses (H).

## **Financing Payments**

Financing payments includes all cash paid on the principal of a business loan, a line of credit or a credit card.

### **Sub-Total Financing Payments (K)**

The total of all payments made on the principal of any financing arrangements incurred by the enterprise.

## **Mission Expenses**

Mission or social costs are premiums or additional costs incurred above and beyond normal business expenses due to the social, environmental and/or cultural mandate of the enterprise.

The reasons an enterprise would distinguish social costs from business expenses are to:

- Recognize and promote differences in management decisions around business and social programs
- Assess business strategies and sustainability
- Compare business performance to industry and mission performance to other community organizations

- Develop a better understanding of an organization's required revenue mix (sales and grants)
- Determine the best ways to cover your social costs
- Quantify the extra resources needed to support social objectives in order to make a case for government or funder investment in operating shortfall
- Provide the ability to weigh social costs against estimates of social impact as a way to better assess the effectiveness and efficiency of the enterprise model as a means to achieve social goals
- Assess competitive strategy in your business sector

It can be challenging to determine exact figures on these costs and may require you to make a best estimate. The estimates will become more accurate over time and will be helpful to get the 'true cost' of the enterprise. Examples include: wage premiums; lower productivity; additional training and support; discounted pricing.

### **Sub-Total Mission Expenses (L)**

The total cash value of the Mission Costs incurred by the enterprise.

### **Capital Activity**

The purchase or sale of an asset that is owned by the enterprise should be recorded in the Cash Flow Forecast. Assets can include: land; buildings; equipment or vehicles.

### **Subtotal Capital Activity (M)**

Record the total cash outcome that results from the sale or purchase of any asset.

### **N – TOTAL Expenses All Sources**

Add all the Business Expenses (J) to Financing Payments (K) to Mission Costs (L) to the Change in Cash from Capital Activity (M).

### **RECONCILIATION OF CASH**

This calculation should be done at least once a month. With the reconciliation of cash you will be able to calculate the cash that you have for the following month.

### **X – Opening Cash Balance**

For the first month of operation you will need to manually enter the amount of cash that is available to you for operational purposes. This figure would be determined in your Start-Up Costs Budget. For the following months you use the figure that is calculated to be the Closing Cash Balance from the previous month. This calculation is set up to be automatically done in the spreadsheet.

### **D – TOTAL Cash In**

The total amount of cash that has been received from all sources.

### **N – TOTAL Cash Out**

The total cash that has been paid out by the enterprise.

### **Y – Surplus/(Deficit)**

The resulting balance when the total Cash Out (N) has been subtracted from the Total Cash In (D).

### **Z – Closing Cash Balance**

The balance that is calculated when the Surplus/(Deficit) balance (Y) is subtracted from the Opening Cash Balance figure (X).

### **SHEET 3: IN-KIND CONTRIBUTIONS AND HIDDEN COSTS – PROJECTED & ACTUALS**

#### **In-Kind Contributions**

The non-cash contributions that are integral components of your business activity need to be recognized and accounted for in order to reflect the 'true cost' of your social enterprise. This is particularly important when determining a competitive pricing policy or future funding needs to sustain your business in the long-term. The following criteria must be applied to determine which contributions need to be recognized:

- Goods or services that must be used in the normal course of your business, that you would have purchased if they were not otherwise provided
- A fair (market) value can be reasonably estimated
- Costs that may be significant to your decision-making process

Examples of In-Kind Contributions include: volunteer or discounted services; discounted or donated goods and materials; donated equipment.

In a Cash Flow Forecast the exercise of recording your expectations for In-Kind Contributions is an important step to understanding where the enterprise may be vulnerable if these Contributions are not received as expected. Volunteer hours can be a particular point of vulnerability if you are relying on volunteers to provide a service within a specific timeframe.

Completing this portion of the cash flow can help you develop a plan in case there is a shortfall of volunteer help.

#### **Sub-Total In-Kind Contributions (P)**

The total cash value of all the In-Kind Contributions to the enterprise.

#### **Hidden Costs**

These are resources used or costs incurred in the normal course of business that are not directly paid for by the enterprise. Examples of hidden costs include: volunteer hours; parent organization costs; donated materials/services and subsidized rent.

Support from the parent organization is also considered a Hidden Cost and needs to be included in this calculation. Examples of Parent Organization Contributions include: shared receptionist service; advertising; website design; office supplies; accounting services; shared management staff and use of the printer/copier.

#### **Sub-Total Hidden Costs (Q)**

The total cash value of all the Hidden Costs incurred by the enterprise.

#### **S – Net In-Kind Contributions/Costs**

This figure is calculated by subtracting In-Kind Contributions (P) from Hidden Costs (Q). It is possible the value assigned to some of the In-Kind Contributions will equal the value of the corresponding Hidden Costs, resulting in a zero sum. For example, the In-Kind Contribution of volunteer hours has been calculated to be a cash value of \$1,000; the Hidden Cost for volunteer hours should also be recorded at \$1,000. It may seem that tracking and assigning a dollar figure for this cost centre is redundant but it is an important exercise in recognizing what you would have to pay for these line items if they were no longer available as an In-Kind Contribution.

## **SHEET 4: CASH AND IN-KIND ACTIVITIES - ACTUALS**

All of the figures on this spreadsheet are completed automatically once you have filled in the fields on the previous spreadsheets. You should not alter any figures on this page. If you see something that does not look right, make the change in the appropriate field on the linked spreadsheet.

### **Sustainability Measure**

This section is not found in the traditional Cash Flow Forecast but it provides an opportunity for your organization to monitor the development of the long-term sustainability of your social enterprise. It is a quick summary of all sources of cash flowing in and out as well as the percentage of each cost centre's contribution to the net cash balance. Also factored into this section are the non-cash activities of In-Kind Contributions and Hidden Costs to allow for a complete overview of the enterprise in-flows and out flows. Once the financial goals of the enterprise have been identified, the figures in this section will provide the ability to monitor the income and cost figures in relation to the various cost centres and the social enterprise goals. For the purpose of this measure, use the actual figures that have been calculated on the previous pages of this spreadsheet.

### **Cash Flow Assumptions**

It is important to declare any assumptions you have made so the reader is aware how the figures were calculated. An example of an assumption: 50 people will purchase Product 1 at a rate of \$5 per item per week. Therefore the monthly Sales Forecast for Product 1 is \$1,000 (50 items X \$5/item X 4 weeks).

### **Financial Goals**

A social enterprise may have profitability as its goal, or it may not. As an SE it is important to be clear about your financial goals and to interpret your financial statements accordingly. In summary these goals could be:

**Self-Sufficiency:** Business revenues will cover all expenses.

**Profitability:** Business revenues will exceed expenses. A profit target could be defined.

**Contribution:** Business revenues will contribute to costs; business revenues may cover business expenses, but not the social costs associated with your mission.

### **Additional Information Sources:**

[www.enterprisingnonprofits.ca](http://www.enterprisingnonprofits.ca)

On this website is a free downloadable version of the enterprising non-profits 'The Canadian Social Enterprise Guide', second edition.

[www.demonstratingvalue.org](http://www.demonstratingvalue.org)